

Message Text

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ACTION ARA-14

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TO SECSTATE WASHDC 8639

INFO AMEMBASSY BANGKOK

AMEMBASSY KUALA LUMPUR

AMEMBASSY JAKARTA

AMEMBASSY LONDON

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EO 11652: NA

TAGS: EMIN, EGEN, BL

SUBJECT: US TIN POLICY

REF: STATE 295557

1. WE ARE APPROACHING ANOTHER MEETING OF THE INTERNATIONAL TIN COUNCIL (ITC) AND AGAIN ARE FACED WITH A POSSIBLE ACRIMONIOUS FIGHT OVER AN INCREASE IN THE BUFFER STOCK PRICE RANGE. WE EXPECT THAT PRODUCING COUNTRIES, IF THIS MEETING FOLLOWS THE PAST PATTERN, WILL PRESS FOR A SUBSTANTIAL INCREASE IN THE PRICE RANGE. THE US DELEGATION WILL BE OBLIGATED TO LEAD CONSUMERS IN A FIGHT FOR NO OR ONLY SMALL INCREASES IN THE MINIMUM AND MAXIMUM PRICES, AND MAY BE OUTVOTED. IT SEEMS TO ME THAT TO CONTINUE THIS SCENARIO AT FUTURE MEETINGS WILL NOT SERVE EITHER US ECONOMIC OR POLITICAL INTERESTS. THE SOURCE OF MY CONCERN IS THE PROCESS AS MUCH AS THE RESULT.

2. BASICALLY OUR POLITICO-ECONOMIC REASON FOR JOINING

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ITC AND LATER FOR OFFERING TO MAKE A VOLUNTARY CONTRIBUTION TO THE BUFFER STOCK WAS TO SHOW EVIDENCE OF GOOD FAITH INTENTIONS IN THE OVER-ALL CONTEXT OF THE NORTH-SOUTH DIALOGUE AND OUR WILLINGNESS TO DEAL WITH ECONOMIC CONCERNS OF DEVELOPING COUNTRIES. THE ACRIMONIOUS AND PROBLEM-RIDDEN OPERATION OF THE TIN AGREEMENT, HOWEVER, THREATENS TO DISSIPATE SUBSTANTIALLY THE POLITICAL BENEFITS WE SOUGHT

IN JOINING. OUR POLITICAL INTEREST IN COMMODITY POLICY AS THE CURRENT LEADING EDGE OF OUR NORTH-SOUTH RELATIONSHIP REQUIRES THAT WE TRY TO MAINTAIN THE POLITICAL BENEFITS INITIALLY ASSOCIATED WITH ITC MEMBERSHIP. SOME WOULD ADD AN ECONOMIC ARGUMENT, NOTING THAT IF THERE ACTUALLY IS A LONG-RANGE IMBALANCE BETWEEN WORLD PRODUCTION AND WORLD CONSUMPTION OF TIN FOR WHICH THE SOLUTION IS INCREASED INVESTMENT, THEN THE PAST US OPPOSITION TO MORE SUBSTANTIAL BUFFER STOCK PRICE RANGES MAY NOT MAKE ECONOMIC SENSE. WE MAY IN FACT BE TRYING TO HOLD DOWN SHORT-TERM PRICES WITH THE PROSPECTS OF MUCH HIGHER LONG-TERM PRICES. THAT ACTUAL MARKET PRICES HAVE FAR OUTRUN BUFFER STOCK RANGES DOES SEEM TO INDICATE THAT SOMETHING IS WRONG WITH THE PRESENT BUFFER STOCK RANGES AND THE INTERNATIONAL TIN INDUSTRY.

3. WASHINGTON ISS IN A BETTER POSITION TO JUDGE THESE ECONOMIC FACTORS THAN WE HERE, BUT TO THE EXTENT THEY ARE VALID, THEY ADD FORCE TO THE MAIN, POLITICAL ARGUMENT.

4. OUR INTEREST IS PROBABLY NOT SERVED BY SWITCHING TO A HIGH-PRICE POLICY FOR TIN. BUT IT DOES SEEM TO ME THAT WE WOULD BENEFIT BY SEEKING MODES OF OPERATION FOR THE TIN AGREEMENT THAT INVOLVE LESS POLITICAL WEAR AND TEAR THAN THE PRESENT ONE. THERE MUST BE WAYS OF MANAGING THE TIN AGREEMENT THAT WOULD BE POLITICALLY MORE NEUTRAL IN THE CONSUMER-PRODUCER PLANE AND STILL PRODUCE ECONOMIC RESULTS, IN TERMS OF PRICE LIMITED OFFICIAL USE

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RANGES FOR THE BUFFER STOCK, THAT WOULD BE NO LESS FAVORABLE TO OUR INTERESTS THAN THE RESULTS OF THE CURRENT TUG OF WAR.

5. OTHER INTERNATIONAL INSTITUTIONS HAVE HAD SOME SUCCESS IN TURNING POLITICALLY DIVISIVE DECISIONS (E.G., INTEREST RATES ON IFI LOANS, CALCULATION OF EXPORT SHORTFALLS UNDER THE IMF COMPENSATORY FINANCING FACILITY) INTO MORE TECHNICAL OPERATIONS BY USE OF AGREED FORMULAS AND SECRETARIAT DISCRETION. WHY CAN'T WE TRY MORE OF THIS IN THE OPERATION OF THE TIN AGREEMENT AND THEREBY GET THE US OUT OF THE MIDDLE OF A COSTLY PRODUCER-CONSUMER DISPUTE OVER AN AREA WHERE THE PLAY FOR BROAD DISCRETIONARY JUDGMENT IS SO WIDE THAT DEADLOCK IS VIRTUALLY INEVITABLE? IT SEEMS WE SHOULD TRY.

6. CONSEQUENTLY, I HOPE THAT WE ARE CONSIDERING IN PREPARATION FOR THE NEXT ITC MEETING SOME OPTIONS THAT WOULD PRODUCE A SMOOTHER, MORE TECHNOCRATIC AND POLITICALLY NEUTRAL OPERATION OF THE TIN AGREEMENT. ONE POSSIBILITY WOULD BE TO AGREE TO REDUCE THE POLITICAL ELEMENT IN SETTING BUFFER STOCK PRICE RANGES BY RELYING ON RANGES KEYED TO ECONOMETRIC MODELS AND CALCULATIONS OF MEDIUM-TERM PRICE TRENDS. ANOTHER POSSIBILITY WOULD BE TO GIVE MORE AUTHORITY TO THE ITC EXECUTIVE SECRETARIAT TO PREPARE

AND USE SUCH METHODS TO ESTABLISH PRICE RANGES FOR BUFFER STOCK OPERATIONS. IN MY LIMITED EXPERIENCE I HAVE FOUND THE ITC STAFF MORE MODERATE ON PRICE QUESTIONS THAN PRODUCERS; THEREFORE, INCREASING THEIR AUTHORITY COULD BE TO OUR ADVANTAGE. ALSO, IF PURE TREND CALCULATIONS ARE NOT USED, BUT RATHER MORE COMPLEX FORMULAS INCLUDING FACTORS SUCH AS PRODUCTION COSTS AND INVESTMENT RETURNS, THEN THIS WILL REQUIRE A HEAVY SECRETARIAT ROLE.

7. THERE MAY WELL BE OTHER APPROACHES TO DE-ESCALATING THE POLITICAL CONTENT OF OPERATIONAL DECISIONS IN THE ITC. AN APPROACH ALONG THESE LINES COULD HARDLY PRODUCE LESS FAVORABLE ECONOMIC RESULTS THAN THE PRESENT PROCESS (AND COULD CONCEIVABLY WORK OUT MORE FAVORABLY), BUT IT WOULD ALMOST CERTAINLY PRESERVE MORE OF THE LIMITED OFFICIAL USE

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POLITICAL CAPITAL THAT FIGURED SO IMPORTANTLY IN OUR DECISION TO JOIN.
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